

# Understanding Your Taxes



★ A NEWSLETTER FROM THE CITY OF CAMBRIDGE ★ EXECUTIVE DEPARTMENT ★

## Dear Residents and Taxpayers of Cambridge:

At the request of the City Council, I appointed a special Committee on Taxation to explore potential changes to property tax legislation and to increase taxpayer awareness. At the recommendation of the Committee, the City will be sending you periodic newsletters, the first of which explains the City's fiscal health and how it relates to your tax bill. Subsequent newsletters will provide information about property assessments, tax rates, exemptions and abate-ments. Additionally, I will keep you apprised of any legislative changes that may affect your tax bill.

Recognizing that the fiscal year (FY) 2005 increase in property taxes placed a burden on some property owners, the City Administration and City Council developed a FY06 budget that maintains financial stability while minimizing the impact on taxpayers. At the same time, residents of Cambridge will continue to receive the wide array of services they have come to expect. I am pleased to report that the FY06 projected tax levy increase of 2.5% is the lowest in a decade. As a result, Cambridge's residential tax rate will remain one of the lowest in the Commonwealth (See table below). Cambridge has been able to achieve a low tax rate

due to several factors. These include: an ability to generate non-property tax revenues, controlled budget growth, the prudent use of reserve funds and new construction growth.

The three major Wall Street rating agencies showed confidence in the City's financial management by awarding a AAA bond rating, which is the highest available. This rating directly impacts the City's cost of borrowing for capital projects, such as construction of the new main library.

I encourage you to examine this publication, specifically comparative data to other municipalities, and to seek out City staff from the departments listed on the back cover with any questions or comments. Thank you for taking an interest in the City's financial health and making a commitment to learn more about how your taxes make Cambridge a vibrant and hospitable city for residents and visitors.

Sincerely,

ROBERT W. HEALY, CITY MANAGER

### Cambridge's Residential Tax Rate is the Lowest Among Surrounding Communities and One of the Lowest for Any City in the Commonwealth!

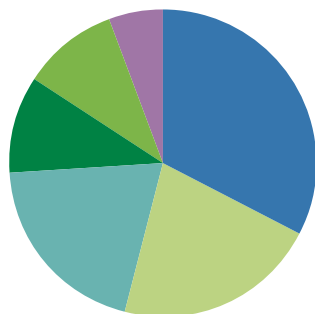
	FY 05 TAX RATE (PER \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
<b>CAMBRIDGE*</b>	<b>\$ 7.78</b>	<b>\$ 1,454</b>	<b>\$ 4,566</b>
BROOKLINE*	\$ 10.23	\$ 2,561	\$ 6,653
SOMERVILLE*	\$ 10.75	\$ 2,820	\$ 7,120
WATERTOWN*	\$ 10.91	\$ 3,378	\$ 7,742
NEWTON	\$ 9.48	\$ 3,792	\$ 7,584
BELMONT	\$ 10.69	\$ 4,276	\$ 8,552
ARLINGTON	\$ 10.94	\$ 4,376	\$ 8,752
LEXINGTON	\$ 11.34	\$ 4,536	\$ 9,072

\* Includes residential exemption for owner occupied homes. The residential exemption has not been adopted by all communities.

# City of Cambridge FY2006 Budget

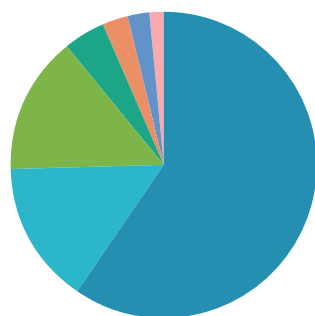
**TOTAL OPERATING BUDGET: \$380,186,825**

## OPERATING EXPENDITURES



<b>EDUCATION</b> \$124,044,400 32.6%	<b>GENERAL GOVERNMENT</b> \$38,703,785 10.2%
<b>PUBLIC SAFETY</b> \$81,513,280 21.4%	<b>INTERGOVERNMENTAL</b> \$38,191,595 10.1%
<b>COMMUNITY MAINTENANCE &amp; DEVELOPMENT</b> \$75,906,015 20%	<b>HUMAN RESOURCE DEVELOPMENT</b> \$21,827,750 5.7%

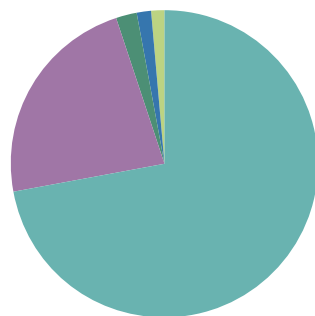
## OPERATING REVENUES



<b>PROPERTY TAXES</b> \$226,330,145 59.6%	<b>MISCELLANEOUS REVENUE</b> \$10,236,505 2.7%
<b>CHARGES FOR SERVICE</b> \$56,978,040 15%	<b>FINES &amp; FORFEITS</b> \$8,880,395 2.3%
<b>INTERGOVERNMENTAL</b> \$55,278,340 14.5%	<b>LICENSES &amp; PERMITS</b> \$5,822,615 1.5%
<b>OTHER TAXES</b> \$16,660,785 4.4%	

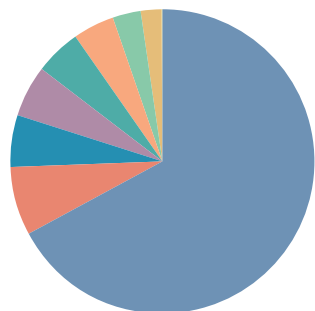
**TOTAL CAPITAL BUDGET: \$27,383,170**

## CAPITAL EXPENDITURES



<b>COMMUNITY MAINTENANCE &amp; DEVELOPMENT</b> \$19,745,580 72.1%	<b>GENERAL GOVERNMENT</b> \$600,000 2.2%
<b>HUMAN RESOURCE DEVELOPMENT</b> \$6,252,590 22.8%	<b>EDUCATION</b> \$400,000 1.5%
	<b>PUBLIC SAFETY</b> \$385,000 1.4%

## CAPITAL REVENUES



<b>BOND PROCEEDS</b> \$18,365,840 67.1%	<b>SEWER SERVICE CHARGE</b> \$1,200,000 4.4%
<b>BLOCK GRANT</b> \$2,014,135 7.3%	<b>WATER SERVICE CHARGE</b> \$820,000 3%
<b>PROPERTY TAXES</b> \$1,500,000 5.5%	<b>PARKING FUND</b> \$600,000 2.2%
<b>CHAPTER 90</b> \$1,525,695 5.5%	<b>GOLF COURSE FEES</b> \$27,500 .1%
<b>FREE CASH</b> \$1,330,000 4.9%	

## Capital Investment Program...

### Investing in the City's Future

The City's ongoing capital investment program is funded through the sale of bonds, state and federal grants and current year revenues.

Major projects funded through the sale of bonds during the past five years include:

- West Cambridge Youth and Community Center
- Russell & Donnelly Field Renovations
- Area 4 Park Improvements
- Gold Star & War Memorial Pool Improvements
- Automated Water Meter Reading System (AMR)
- New Main Library
- Taylor Square Fire Station Renovation
- Cambridge Street Improvements
- Sewer Reconstruction Projects
- Harvard & Porter Square Enhancements
- Yerxa Road Underpass
- Acquisition of New Public Safety Building
- City Hall Annex Renovation

# How Your Tax Bill is Determined

## Basic facts about the real estate tax levy

Three major factors are responsible for calculating a tax bill.

- ★ THE CITY BUDGET
- ★ COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION
- ★ PROPERTY VALUES (ASSESSMENT).

The three factors are explained in detail below.

**CITY BUDGET.** Based on the recognition that the FY05 increase in property taxes placed a burden on some property owners, the City Council and City Administration produced a FY06 Budget with a projected 2.5% property tax levy increase, which is the lowest increase in a decade. The Adopted FY06 budget of \$380.2 million is 4.2% greater than the FY05 adjusted budget. While the City has many sources of revenue, property taxes support about 60% of the operating budget. For FY06, the City projects that it must collect about \$228.5 million in property taxes. This is called the tax levy. Once the property tax levy is determined, the factors of Commercial-Residential Property Tax Classification and Property Values determine how much an individual property owner pays in property taxes.

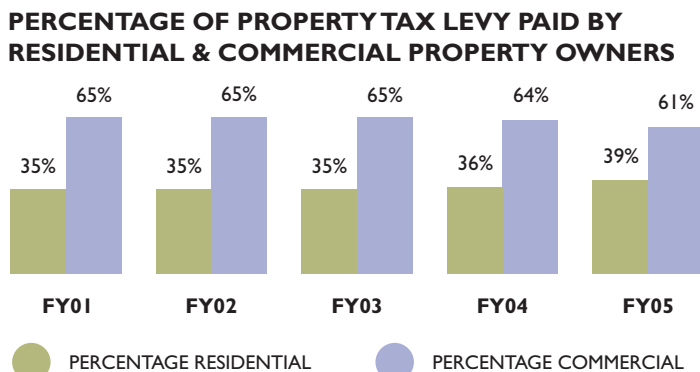
CAMBRIDGE OPERATING BUDGET (in millions)			CAMBRIDGE TAX LEVY (in millions)		
FY 04	FY 05	FY 06	FY 04	FY 05	FY 06
\$341.5M	\$362.4M	\$380.2M	\$209.6M	\$223.0M	\$228.5M (projected)

## COMMERCIAL-RESIDENTIAL PROPERTY TAX

**CLASSIFICATION.** Municipalities are allowed to tax commercial property (i.e. office, industrial and retail buildings, hotels and personal property) at a higher tax rate than residential property. This process is known as property tax classification. The State property tax classification law is complex, as are the formulas that determine how much the City may collect in property taxes from both residential and commercial property owners. The State limits how much higher the commercial tax rate can be set above the residential tax rate. In FY04, Cambridge reached the maximum tax rate shift allowed by the State under the permanent tax classification law. Neither the City Council nor the City administration is allowed to increase the proportion of the tax levy paid by commercial owners versus the proportion paid by residential owners of real estate above the current limit under this law.

Overall, the property tax classification process has meant that commercial property owners have traditionally paid approximately two-thirds of the total property taxes (levy). Cambridge reached the maximum tax classification limits in FY04 as a result of escalating residential values which outpaced commercial property values. Therefore, not as much of the property tax levy could be shifted to the commercial property owners because of the limits imposed by the tax classification law. This is because the tax rate tax classification system is driven by property values and the relationship between overall commercial and residential values, with the tax rate being the end-product.

The chart below reflects the percentage of the property tax levy paid by residential and commercial taxpayers for the last 5 years.

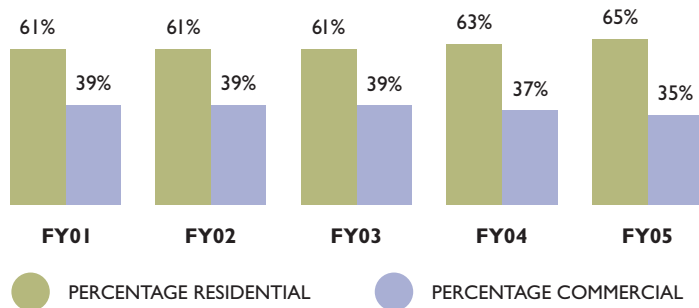


In FY05, the trend of slowing values of commercial real estate, coupled with rising values of residences, required Cambridge to further shift the relative burdens of commercial and residential property owners. In FY05, the commercial property owners as a group were required to pay 61% of the property tax levy, down from 64% the year before. Likewise in FY05 the share paid by residential owners went up from 36% to 39%. During the past five years, the tax levy shift was a cumulative 7% from commercial property to residential property as a result of market conditions. These State-imposed limits on Cambridge resulted in the major share of the FY05 tax levy increase being passed on to residential owners, not commercial owners. Residential property owners were required by State law to absorb \$11.6 million of the additional \$13.4 million in levy increase, with commercial owners making up the difference.

***“The superior ‘AAA’ credit rating is based on Cambridge’s diversified economy characterized by a sizable and stable employment base, a substantial and growing tax base, consistently strong fiscal performance and a low debt burden.”***

The chart below reflects the percentage distribution between residential and commercial values for the last five years and shows that residential values as a percentage of total value have increased significantly.

#### PERCENTAGE RESIDENTIAL & COMMERCIAL PROPERTY VALUES



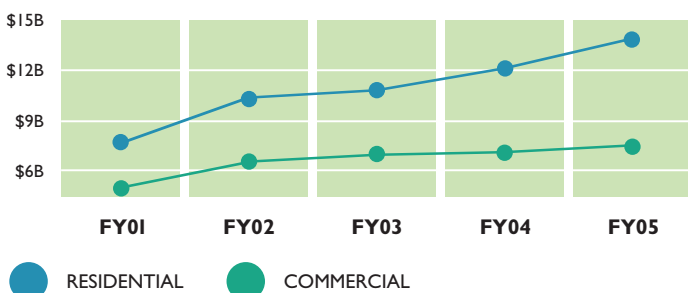
For FY06, the City projects that the portion of the tax levy paid by commercial property owners will increase for the first time in recent years due to an increase in new commercial construction and personal property accounts.

**PROPERTY VALUES.** Property values are established independent of the above two factors. The Massachusetts State Department of Revenue requires that all property be assessed annually, using approved mass appraisal techniques, at 100% of full and fair cash value. Individual assessments may rise and fall based upon market activities for similar properties and capital improvements. Fiscal year assessments are the property values as of the previous January 1st. The FY06 property tax bills are based on the assessed value as of January 1, 2005, using calendar 2004 market activity. Once the property tax rate (property tax levy divided by total property value) is established, this determines your individual property tax bill based on your property value.

Cambridge is not unique with regard to residential property values growing at a faster rate than commercial values. This is a national trend, but Cambridge remains a highly attractive, desirable place to live, with low crime, a highly educated workforce and desirable cultural and business amenities.

The chart below shows the increase in residential and commercial values for the last 5 years and illustrates that residential values are growing at a faster rate in comparison to commercial values.

#### FIVE-YEAR COMPARISON OF RESIDENTIAL AND COMMERCIAL TOTAL VALUES



## INDEPENDENT ASSESSMENTS OF CAMBRIDGE'S FINANCIAL HEALTH

### What do the Rating Agencies say?

Wall Street has three major ratings services: Fitch, Moody's, and Standard & Poor's. All three give Cambridge a AAA rating. That is the highest rating possible. The critical factor examined by ratings services is whether a city has a prudent balance between incoming revenues and out-going expenditures. Cambridge has managed its finances quite responsibly for a long time. Many communities in Massachusetts and the nation pay significantly higher interest rates than Cambridge when borrowing money for capital improvement projects.

***"The superior 'AAA' credit rating is based on Cambridge's diversified economy characterized by a sizable and stable employment base, a substantial and growing tax base, consistently strong fiscal performance and a low debt burden. Financial planning and debt management are solid."***

Fitch Ratings, January 2005

### How Does Cambridge Measure Against Other Massachusetts Cities & Towns?

- ★ According to Massachusetts Department of Revenue, Cambridge ranks highest of all communities proximate to Boston in an analysis of "Municipal Stability Factors."
- ★ Cambridge has one of the lowest residential tax rates of any city in the Commonwealth.
- ★ Cambridge is one of only 7 municipalities in Massachusetts awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA).
- ★ In FY05, due to long-term prudent fiscal management, Cambridge had an excess property tax levy capacity of \$44.7 million which is the largest amount of any municipality in the State.

# What Makes Cambridge Cambridge?

In addition to providing traditional municipal services, Cambridge is a service-rich community which provides a variety of high quality non-traditional municipal services to its residents.

## A COMMITMENT TO A HIGH QUALITY OF LIFE:

- ★ Affordable Housing—over 2,700 units have been preserved or created since the end of rent control.
- ★ Monthly street sweeping augmented by daily cleaning of the Squares.
- ★ Weekly curbside trash and recycling pick-up with no separate trash fee.
- ★ Construction and maintenance of award-winning parks and playgrounds.
- ★ Services to promote a healthy business environment.
- ★ Public Events that foster community and support neighborhood vitality (i.e. Danehy Park Family Day, Annual Dance Party, “Destination Cambridge” activities, public art exhibits and Summer in the City performances).
- ★ Providing residents access to information through the City’s Web site (i.e. E-Line services, Customer Request System, Permits and License Directory and Assessing Department Property Data Base).
- ★ Neighborhood Branch Libraries.
- ★ Support for the Cambridge Health Alliance System, a national model for health care delivery.

## A COMMITMENT TO THE ENVIRONMENT:

- ★ An aggressive sewer reconstruction and stormwater management program to protect the Charles River and Alewife Brook and ensure public health.
- ★ City-owned water supply, ensuring high quality and ample quantity of water.
- ★ Construction of “green” buildings and energy efficient systems.
- ★ Use of alternative fuels to reduce harmful vehicular emissions.
- ★ Transportation programs to reduce single occupancy vehicle trips.
- ★ Public shade tree maintenance and planting program, under the direction of a City Arborist.

## A COMMITMENT TO HUMAN SERVICES AND EDUCATION:

- ★ Operation of 2 Senior Centers, 5 Youth Centers, 12 Community Schools and a Community Learning Center.
- ★ Childcare and Family Support. This includes support for pre-school and after-school programs, the King Open Extended Day Program, summer camps and the Center for Families.
- ★ Homeless services provided through the Multi-Service Center.
- ★ Strong support for the Public School System. This includes providing an all-day kindergarten program, athletics, extra-curricular activities and enrichment programs for students with no user fees.

## A COMMITMENT TO PUBLIC SAFETY:

- ★ Implementation of a new emergency medical services paramedic plan to improve response capabilities citywide by the Fire Department. Continued Class 1 classification to the Fire Department which is the highest rating issued by the Insurance Service Organization (ISO).
- ★ Below average crime rate for cities with 100,000 residents.
- ★ Traffic calming — redesigned streets to improve safety for walkers, bikers & drivers.
- ★ Purchase of street lights from NSTAR to provide timely repair and maintenance.

## A COMMITMENT TO FISCAL RESPONSIBILITY:

- ★ AAA bond rating from the three major rating agencies.
- ★ Provision of long-term revenue protection and stability through recently negotiated payment-in-lieu of taxes (PILOT) agreements with Harvard and MIT.
- ★ \$6.7 million grant award from Massachusetts Board of Library Commissioners for new main library project with the possibility of an additional grant award.
- ★ Robust capital improvement program that invests in vital City infrastructure.
- ★ Adoption of Community Preservation Act, which has brought \$15 million in state matching funds to support affordable housing, historic preservation and open space initiatives.

# What If I Have a Tax Related Question or Want More Information?

## Ask The Treasurer

EMAIL: [treasurer@cambridgema.gov](mailto:treasurer@cambridgema.gov)

### SEND MAIL TO:

The City Treasurer  
Cambridge City Hall  
795 Massachusetts Avenue  
Cambridge, MA 02139

VISIT THE CITY'S WEB SITE: [www.cambridgema.gov](http://www.cambridgema.gov)

Sign up for Cambridge E-Line to receive periodic electronic newsletters, alerts and City publications

### CONTACT A DEPARTMENT:

Assessing Department for Property Value Info. 617 349 4343  
Budget Office for Expenditure/Revenue Info. 617 349 4270  
Finance Department for Tax Bill Info. 617 349 4220  
City Manager's Office 617 349 4300

## Important Dates & Publications

### SEPTEMBER 2005

City Council adopts City Manager's Recommendations to minimize, to the fullest extent legally possible, the taxes on residential properties (subject to approval of the State Department of Revenue).

### OCTOBER 2005

- FY06 Tax Bills Mailed
- FY06 Tax Newsletter Mailed  
(Including info on Abatements and Exemptions)
- Community Q&A meetings scheduled at various locations

### NOVEMBER 2005

Exemptions Newsletter Mailed

[www.cambridgema.gov](http://www.cambridgema.gov)

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